

## Message Text

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ORIGIN EUR-12

INFO OCT-01 ISO-00 CIAE-00 PM-04 INR-07 L-03 ACDA-05

NSAE-00 PA-01 SS-15 PRS-01 SP-02 USIA-06 TRSE-00

SAJ-01 DODE-00 EB-07 COME-00 OMB-01 FRB-03 /069 R

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APPROVED BY EUR/RPE: ACALBRECHT

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EUR/RPM:DTELLEN

----- 012994

P 051832Z NOV 75

FM SECSTATE WASHDC

TO USMISSION NATO PRIORITY

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E.O. 11652: N/A

TAGS: ECON, EFIN, NATO

SUBJECT: ECONADS: EFFECTS OF INFLATION ON DEFENSE  
EXPENDITURES, EXPERTS' MEETING OF OCTOBER 2

REF: NATO 5643

DECISION SHEET AC/127-R479

STATE 251063

1. SUMMARY.

AS NOTED IN STATE 251063, WE CONTINUE TO BELIEVE THAT  
PRIORITY EFFORT SHOULD BE GIVEN TO AGREEMENT ON SIMPLIFIED  
AND CONSISTENT TWO-DEFLATOR METHOD FOR ANALYSIS OF DEFENSE  
EXPENDITURES AT THIS TIME. PARA TWO BELOW IS THE SPECIFIC  
CHANGES WE RECOMMEND IN THE DECISION SHEET (R/479). PARA  
THREE GIVES OUR COMMENTS AND THE REASONS FOR THE PROPOSED  
CHANGES.

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2. RECOMMENDED CHANGES. (KEYED TO PARAS IN DECISION SHEET):

(1) NO CHANGE

(2) DELETE FORMER PARA 2 AND SUBSTITUTE THE FOLLOWING:

"NOTED THAT IN PARTICULAR FIRST PRIORITY SHOULD CONTINUE TO BE GIVEN TO THE EFFORT TO REACH AGREEMENT ON A SIMPLIFIED AND CONSISTENT TWO-DEFLATOR METHODOLOGY, ONE FOR PERSONNEL AND THE OTHER FOR NON-PERSONNEL (NON-COMPENSATION) EXPENDITURES, INCLUDING THE ADJUSTMENT OF PRICES FOR

IMPORTED MILITARY GOODS USING THE NON-COMPENSATION DEFLATORS OF EXPORTING COUNTRIES."

(3) (NEW PARAGRAPH)

" NOTED THAT THE TWO-DEFLATOR SYSTEM COULD BEST BE IMPROVED BY PREPARING A STAFF REPORT FOR REVIEW BY THE NATIONAL EXPERTS. THE REPORT WILL INCLUDE A COMPARISON OF DATA FOR ALL COUNTRIES BASED ON MAJOR ALTERNATIVE METHODS OF CALCULATION AND THROUGH CURRENT YEAR WEIGHTINGS THAT ARE MORE ACCURATE THAN A BASE YEAR WEIGHTING OVER THE PERIOD UNDER CONSIDERATION."

(4) (USE FORMER PARA THREE UNCHANGED)

(5) REVISE FORMER PARA (4) TO READ AS FOLLOWS:

"ASSERTED THAT IN THE NEXT STAGE THE CALCULATION OF PRICE INDICES APPLYING TO BOTH PERSONNEL AND NON-PERSONNEL EXPENDITURES SHOULD BE IMPROVED THROUGH A MORE DETAILED BREAKDOWN OF THESE CATEGORIES ON A CONSISTENT BASIS BETWEEN COUNTRIES AND THAT THE PRICE INDEX APPLIED TO MILITARY GOODS SHOULD BE IMPROVED ON THE SAME BASIS;"

(6) USE FORMER PARA (5) UNCHANGED

(7) USE FORMER PARA (6) UNCHANGED

(8) REVISE FORMER PARA (7) TO READ AS FOLLOWS:

"INVITED THE INTERNATIONAL STAFF TO PREPARE A NOTE FOR SUBMISSION TO THE COUNCIL, SUMMARIZING THE CURRENT STATUS OF THE WORK AND THE NEXT STEPS TO BE TAKEN, AND, IF DATA LIMITED OFFICIAL USE

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ARE AVAILABLE BASED ON A CONSISTENT TWO-DEFLATOR METHOD USING ONE OR MORE ALTERNATIVE METHODS OF CALCULATION, INCLUDING A SUMMARY OF PRELIMINARY RESULTS WITH COMMENTS THAT MIGHT BE USED ON A LIMITED AND PROVISIONAL BASIS IN THE WORK UNDERTAKEN IN NATO ON DEFENSE EXPENDITURES, PROVIDED THAT THE MEMBERS OF THE ECONOMIC COMMITTEE APPROVE.

(END TEXT.)

3. COMMENTS AND REASONS FOR CHANGES, KEYED TO PARAS OF  
DECISION SHEET FOLLOW SEPTTEL. KISSINGER

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** INFLATION, MILITARY EXPENDITURES, ECONOMISTS, CONSULTANTS, MEETINGS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 05 NOV 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** GolinoFR  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1975STATE262008  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** GEWOLFE/DOD/ISA: WGEORGE  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D750384-0770  
**From:** STATE  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1975/newtext/t19751175/aaaacpis.tel  
**Line Count:** 118  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ORIGIN EUR  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** GolinoFR  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 29 APR 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <29 APR 2003 by BoyleJA>; APPROVED <30 DEC 2003 by GolinoFR>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
06 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** ECONADS: EFFECTS OF INFLATION ON DEFENSE EXPENDITURES, EXPERTS' MEETING OF OCTOBER 2  
**TAGS:** ECON, EFIN, NATO  
**To:** NATO BRUSSELS  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006